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REPORT TO
THE CONGRESS OF THE UNITED STATES

Report
AUDIT OF
VIRGIN ISLANDS CORPORATION,
FISCAL YEAR 1962



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

MAY 1963

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COMPTROLLER GENERAL OF THE UNITED STATES
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To the President of the Senate and the
Speaker of the House of Representatives

Herewith is our report on the audit of the Virgin Islands Corporation for the fiscal year ended June 30, 1962.

Our principal comments in the report deal with proposals to sell the Corporation's power and land assets and with certain deficient electric meter reading and billing procedures.

The Corporation operates the Islands' electric power facilities and newly constructed salt water distillation facilities at St. Thomas. Other corporate activities include the production and milling of sugar cane and the management of certain Navy-owned properties.

In our prior year's report we suggested that the Congress might wish to direct that the Corporation's potentially profitable power assets be sold to a responsible private enterpriser. Such sale seems to offer the best prospect for adequate financing and management of the Islands' expanding power requirements without further appropriations by the Federal Government.

Legislation providing for the transfer of the Corporation's power facilities and other assets to the Government of the Virgin Islands was proposed by the Secretary of the Interior as part of a Virgin Islands Home Rule Act (H.R. 11281 and S. 3159) introduced during the second session of the Eighty-seventh Congress; these bills were not enacted. In June 1962, the Board of Directors authorized its Chairman to explore the possibility of declaring the facilities excess and transferring them to the insular government at fair market value. Concurrent with these proposals a request for \$3.8 million to finance expansion of the Corporation's power facilities was included in a fiscal year 1963 supplemental appropriation bill which failed of enactment; the request was resubmitted during the first session of the Eighty-eighth Congress.

In our prior report we suggested also that the Congress might wish to transfer the Corporation's lands, comprising

REPORT ON AUDIT
OF
VIRGIN ISLANDS CORPORATION
FISCAL YEAR 1962

The General Accounting Office has made an audit of the VIRGIN ISLANDS CORPORATION for the fiscal year ended June 30, 1962, pursuant to the Government Corporation Control Act (31 U.S.C. 841). The scope of the audit work performed and our opinion of the financial statements of the Corporation appear on page 29 of this report.

GENERAL COMMENTS

The Virgin Islands Corporation is a wholly owned Government Corporation, created by the Virgin Islands Corporation Act of June 30, 1949 (48 U.S.C. 1407), as successor to the Virgin Islands Company incorporated in 1934. The Corporation's principal office is located on the island of St. Croix in the Virgin Islands of the United States. The Corporation is chartered through June 30, 1969, unless sooner dissolved by act of the Congress. Pursuant to the act, the President of the United States designated the Secretary of the Interior as his representative to exercise general direction over the Corporation.

The growing of sugar cane, the manufacturing of raw sugar, and the generation and distribution of electric power continued to be the Corporation's major revenue-producing activities during the fiscal year 1962. In addition, the Corporation commenced deliveries of potable water to the Government of the Virgin Islands from

salt water distillation facilities designed to produce 275,000 gallons a day. The Corporation manages certain Navy-owned properties on the island of St. Thomas and was also engaged in non-revenue-producing activities designed to promote, through economic development, the general welfare of the inhabitants of the Virgin Islands.

The management of the Corporation is vested in a 7-member Board of Directors. The members of the Board and other policy-making officials responsible for activities of the Corporation during fiscal year 1962 are listed in the appendix of this report.

Activities of the Corporation provided employment for about 1,200 employees during the peak season. These employees included about 600 British West Indian workers mostly engaged for cutting cane during the harvesting season. The number of appointed personnel at June 30, 1962, was 180, compared with 155 at June 30, 1961.

During fiscal year 1962, the Corporation sustained a net loss of \$446,000 from revenue-producing activities, compared with a net loss of \$145,000 incurred in the previous fiscal year. The higher net loss for fiscal year 1962 is attributable to the Corporation's sugar operations which resulted in a loss of \$434,000 in fiscal year 1962, compared with a loss of \$47,000 in the preceding fiscal year. Net income of \$24,000 was realized in fiscal year 1962 from the Corporation's power operations, compared with a net loss of \$91,000 for fiscal year 1961. During fiscal year 1962, the Corporation placed higher power rates into effect and improved its power-billing procedures. The Corporation's power costs for fiscal year 1962 include extraordinary charges of \$125,000 to replace the

crankshaft of a diesel generating unit and \$155,000 for interest charges on the Federal investment in power facilities.

PRINCIPAL COMMENTS

PROPOSAL TO SELL THE CORPORATION'S POWER ASSETS

In our report to the Congress dated April 16, 1962, on the audit of the Virgin Islands Corporation for the fiscal year ended June 30, 1961, we suggested that the Congress might wish to direct that the Corporation's potentially profitable power assets be sold to a responsible private enterpriser. Our suggestion was made because such sale seems to offer the best prospect for adequate financing and management of the expanding power requirements without further appropriations by the Federal Government. The Corporation's power consultant estimated in October 1961 that it would require \$20.5 million to expand the Islands' power facilities through 1971; private enterprisers demonstrated a vigorous interest in acquiring the facilities; and doubt existed whether the insular government could provide the financial and managerial resources needed for efficient operation and expansion of the facilities.

Subsequent to the Corporation's charter being extended 10 years, to June 30, 1969, the Congress provided \$2.8 million to expand the Corporation's power facilities. In the 3 fiscal years ended June 30, 1962, the investment in the Corporation's electric plant as shown on its books increased from \$3.8 million to \$6.9 million; during this same period an additional \$1 million was invested in salt water distillation facilities which the Corporation operates in combination with its St. Thomas power facilities. The Corporation's installed electric generating capacity, rated at 7,230 kilowatts at June 30, 1959, was increased to 14,621 kilowatts at

June 30, 1962, and the installation of two additional diesel generating units with a combined capacity of 5,216 kilowatts was then under way. On the basis of an estimate prepared by the Corporation's power consultant in October 1961, additional generating units with a capacity of 42,000 kilowatts are needed to meet the Islands' power loads through 1971.

For fiscal year 1963 the Corporation requested an appropriation of \$3,485,000, including \$3,200,000 to expand its power facilities. The Department of the Interior and Related Agencies Appropriation Act, 1963 (76 Stat. 335), provided \$200,000 to the Corporation for this purpose. A bill for a supplemental appropriation for fiscal year 1963 which included \$3,850,000 for expansion of the Corporation's power failed of enactment. The Corporation's request for such funds was resubmitted to the Eighty-eighth Congress, first session; the request is for \$4,030,000 and includes \$200,000 for expansion of salt water distillation facilities.

In December 1961 the Board of Directors adopted a resolution recommending to the Congress that the Corporation's assets and operations be transferred to the Government of the Virgin Islands and that the Corporation be dissolved on completion of the transfer. The proposals involved in the Board's resolution were subsequently incorporated into a proposed Virgin Islands Home Rule Act (H.R. 11281 and S. 3159, 87th Cong., 2d sess.) which was not enacted.

The Board of Directors, in June 1962, authorized its Chairman to explore selling the Corporation's power facilities to the territorial government, pursuant to authority contained in the Federal

Property and Administrative Services Act of 1949 (63 Stat. 378; 40 U.S.C. 471), as amended. To this end, the Chairman or his delegate was authorized to declare the Corporation's power facilities excess, to apprise the pertinent committees of the Congress of the proposed disposal, and to negotiate disposal of the power facilities for fair market value to the Government of the Virgin Islands. No action to implement this alternative proposal has been taken.

The Administrative Assistant Secretary of the Interior in a letter to us dated February 26, 1963, commenting on the matters discussed in this report, stated that the Department of the Interior continues to believe that the decision as to whether the Virgin Islands power facilities should be operated by the local government, an authority, a cooperative, or a privately held corporation is one that should be made by the Virgin Islanders themselves.

It would appear, however, that existing congressional policy with respect to the acquisition of corporate assets by the insular government would be an overriding consideration. A procedure for the Government of the Virgin Islands to acquire corporate assets is set forth in section 4(a) of the Virgin Islands Corporation Act (48 U.S.C. 1407c(a)). This section provides that, at such time as the Board of Directors finds that the economic development of the Virgin Islands will be served effectively by the sale of some or all of the assets of the Corporation to private enterprise, such disposal may be effected, provided that the sale of any property valued at \$500 or more shall be made only after public advertisement

and sealed competitive bids, and provided further, that the Government of the Virgin Islands shall have the right to purchase the property at a price not greater than that offered by the highest responsible bidder.

PROPOSAL TO SELL THE CORPORATION'S LANDS

In our report dated April 16, 1962, we suggested that the Congress might wish to transfer the Corporation's lands, comprising about 3,650 acres at June 30, 1961, to the Secretary of the Interior or to the Administrator of General Services, and direct that the lands be sold whenever they were determined to be excess to the needs of the Federal or insular governments.

These lands, including approximately 2,200 acres planted in sugar cane, were among the Corporation's assets and operations which the Board of Directors in December 1961 recommended be transferred to the insular government. The Corporation's sugar operations have been unprofitable because of the high cost of milling sugar cane. Under the transfer proposed by the Board, the insular government would have been able to terminate operations of the Corporation's sugar mill by giving 3 years' notice to the private sugar growers who depended on the Corporation to buy and mill their sugar cane and then to dispose of the Corporation's lands. These lands were recorded on the Corporation's books at an acquisition cost of about \$145,000, but their sales value was significantly higher. In our opinion, proceeds from an orderly sale of the Corporation's lands could be used to reimburse the Federal Government for the Corporation's losses which resulted mainly from the sugar operations.

The Corporation incurred losses of \$423,508 and \$10,181 from sugar milling and sugar cane production operations, respectively, during fiscal year 1962, for a combined loss of \$433,689. From its

inception on July 1, 1949, through June 30, 1962, the Corporation sustained net losses totaling \$4,621,341 from revenue-producing activities, mostly from its St. Croix sugar operations. To reimburse the Corporation for its losses, the Congress provided net grants of \$3,946,970 of which \$539,000 was provided by the Department of the Interior and Related Agencies Appropriation Act, 1962 (75 Stat. 246). This act appropriated grants totaling \$669,000 to the Corporation, including \$130,000 for certain non-revenue-producing activities. The Congress directed that the \$669,000 be derived from the internal revenue collections on products of the Virgin Islands imported into the United States, which collections were otherwise appropriated to the Government of the Virgin Islands pursuant to section 28(b) of the Revised Organic Act of the Virgin Islands (26 U.S.C. 7652(b)). Prior to fiscal year 1962, grants provided by the Congress for reimbursement of the Corporation's losses were paid from the general fund of the United States Treasury.

The number of private sugar cane producers in St. Croix declined from 323 in fiscal year 1957 to 155 in fiscal year 1962. In the latter fiscal year, the Corporation's sugar operations provided employment for a seasonal maximum of about 190 United States citizens and 600 alien workers brought in mostly from the British West Indies to cut sugar cane and work in the sugar mill.

The Corporation has initiated action to dispose of about 2,250 acres of its 3,650 acres of landholdings. Largely as a result of requests for specific tracts by Federal agencies and the Government

of the Virgin Islands, the Corporation agreed to dispose of about 550 acres during the fiscal year ending June 30, 1962. Thereafter, in September 1962, the Board of Directors offered to sell 1,700 more acres, comprised of lands devoted to the production of sugar cane. Simultaneously, private growers of sugar cane on St. Croix were given notice that the Board did not guarantee that the Corporation's sugar mill would continue to operate beyond the 1963 sugar cane grinding season.

The Board's decision to offer to sell 1,700 acres of its sugar operations landholdings as one parcel came after a continental United States firm demonstrated interest in acquiring between 1,500 and 2,500 acres of the Corporation's lands on St. Croix, for a privately financed project to grow oranges and manufacture orange concentrate. However, the Board in September 1962 did not bind itself to consummate the sale of the lands, for which a minimum bid of \$500,000 was prescribed, nor to discontinue operating the sugar mill at the end of the 1963 sugar cane grinding season. Also, in its formal sales offer the Corporation reserved the right to give some weight to the representations required from each bidder concerning the use to which the property will be put and, in the Corporation's discretion, to make award to the responsible bidder whose bid is most advantageous to the Virgin Islands, price and proposed use considered. The sales offer was also made subject to the right of the Government of the Virgin Islands to purchase property offered for sale by the Corporation at a price not greater than that offered by the highest responsible bidder. The four bids

received for the 1,700 acre parcel ranged from \$525,000 to \$1,071,000.

REVENUE LOSSES RESULTING FROM
DEFICIENT ELECTRIC METER READING
AND BILLING PROCEDURES

In fiscal year 1961 the Corporation sustained power revenue losses amounting to over \$88,000 because of deficient electric meter reading and billing procedures. Most of the revenue losses were the result of not rendering bills for electric service on a monthly basis, although billing on that basis is prescribed by the Corporation's power rate schedules. Because power rates decrease as larger quantities of electric energy are billed, during fiscal year 1961, most customers paid less for power than would have been the case had the Corporation rendered bills for power service on a monthly basis.

As a result of corrective action taken by the Corporation during fiscal year 1962, revenues of the St. Croix power division, where most of last year's losses occurred, increased substantially. In fiscal year 1962, the division's revenues totaled about \$649,000, compared with revenues of about \$454,000 in the previous fiscal year. An estimated \$100,000 of the \$195,000 revenue increase is attributable to improved electric meter reading and billing procedures placed into effect.

However, for the St. Thomas power division our current audit disclosed that the Corporation sustained avoidable revenue losses of at least \$25,000 during the 12-month period ended August 31, 1962, because of deficiencies in billing large power users. About

\$20,000 of these losses resulted because 13 of the division's 41 large power users were not properly charged for their actual demand during this period. Additional revenue losses totaling about \$5,000 were sustained because suitable electric meters had not been installed at all delivery points. We were advised by Corporation officials that corrective action to prevent future losses would be taken.

FINANCING OF CORPORATE ACTIVITIES

FUNDS AUTHORIZED AND PROVIDED

The Congress has authorized appropriations for activities of the Virgin Islands Corporation including (1) monies from a \$15 million revolving fund in the United States Treasury, (2) grants for losses on revenue-producing activities, and (3) grants for the expenses of non-revenue-producing activities. The Corporation is also authorized to borrow not more than \$2 million from the Treasury of the United States, within such amounts as may be approved in appropriation acts, for constructing, operating, and maintaining salt water distillation facilities on the island of St. Thomas.

At June 30, 1962, the net appropriations and approved borrowings provided by the Congress to finance the Corporation's activities totaled \$16,583,970, of which \$16,052,870 was withdrawn from the United States Treasury, as shown below:

	<u>Fiscal year 1962</u>	<u>Cumulative through June 30, 1962</u>	<u>Withdrawn through June 30, 1962</u>	<u>Balance</u>
Appropriations:				
Revolving fund	\$ 881,000	\$ 9,932,000	\$ 9,682,000	\$250,000
Grants for losses of revenue-producing ac- tivities	539,000	3,946,970 ^a	3,946,970	-
Grants for non-revenue- producing activities	<u>130,000</u>	<u>1,480,000</u>	<u>1,480,000</u>	<u>-</u>
Appropriations pro- vided	1,550,000	15,358,970	15,108,970	250,000
Approval to borrow from United States Treasury for construction of salt water distillation facil- ities	<u>-</u>	<u>1,225,000</u>	<u>943,900</u>	<u>281,100</u>
Combined	<u>\$1,550,000</u>	<u>\$16,583,970</u>	<u>\$16,052,870</u>	<u>\$531,100</u>

^aThrough June 30, 1962, appropriations reimbursing the Corporation's losses totaled \$4,156,769, of which \$209,799 was returned to the United States Treasury in October 1961. This latter amount represents the difference between the appropriations of \$3,617,769 provided through June 30, 1961, for the Corporation's estimated losses through June 30, 1959, and its actual losses of \$3,407,970 sustained through fiscal year 1959.

The Department of the Interior and Related Agencies Appropriation Act, 1962 (75 Stat. 246), provided \$1,550,000 to the Corporation of which \$669,000 was made available from the net internal revenue collections on products of the Virgin Islands imported into the United States.

During consideration of the Corporation's fiscal year 1963 budget request, the House and Senate Committees on Appropriations authorized the Corporation to reprogram \$400,000 to expand its power facilities on the island of St. Thomas. The authority to reprogram funds involved \$150,000 previously appropriated for the construction of salt water distillation facilities and \$250,000 appropriated to the Corporation's revolving fund for the construction of the related steam turbine generating unit which was placed in service on St. Thomas in December 1961.

SOURCE AND APPLICATION OF FUNDS

The Corporation's statement of source and application of funds for the fiscal year ended June 30, 1962, included in the financial statements accompanying this report, shows that during fiscal year 1962 its working capital decreased \$568,082. The decrease is accounted for as follows:

	<u>Working capital as of June 30</u>		<u>Increase or</u>
	<u>1962</u>	<u>1961</u>	<u>decrease (-)</u>
Current assets:			
Cash	\$ 162,616	\$ 191,071	\$ -28,455
Accounts receivable and short term loans	1,803,734	504,211	1,299,523
Inventories of supplies and materials	1,349,536	3,161,735	-1,812,199
Other current assets	<u>116,800</u>	<u>55,355</u>	<u>61,445</u>
Total current assets	<u>3,432,686</u>	<u>3,912,372</u>	<u>-479,686</u>
Current liabilities:			
Accounts payable	279,442	154,761	-124,681
Accrued liabilities	859,852	931,985	72,133
Other liabilities	<u>120,158</u>	<u>84,310</u>	<u>-35,848</u>
Total current liabilities	<u>1,259,452</u>	<u>1,171,056</u>	<u>-88,396</u>
Working capital as of June 30	<u>\$2,173,234</u>	<u>\$2,741,316</u>	<u>\$ -568,082</u>

Outstanding purchase orders not included in the Corporation's current liabilities of \$1,259,452 at June 30, 1962, totaled \$758,164, of which \$740,850 represented purchase orders of the St. Thomas and St. Croix power divisions. The \$744,954 decrease in working capital for power and salt water operations in fiscal year 1962 shown in the statement of source and application of funds (p. 42) resulted in a working capital deficiency for these operations of \$389,695 at June 30, 1962. The Corporation financed part of its fiscal year 1962 power and salt water distillation operations by using sugar and miscellaneous activities' funds totaling \$642,218.

ACTIVITIES

POWER OPERATIONS

The Corporation generates and markets the electrical energy for the Virgin Islands. Power is generated on St. Thomas by seven diesel generating units and one steam turbine generating unit installed in December 1961. On St. Croix power is generated by eight diesel generating units including a 2,216-kilowatt unit placed in service in September 1962. Electric energy is furnished to St. John by means of an underwater transmission cable from St. Thomas.

In fiscal year 1962, the Corporation earned a net profit of \$24,165 from power operations, compared with a net loss of \$91,297 in the previous fiscal year. The costs charged to power operations include interest on the Federal investment amounting to \$155,013 and \$125,380 for fiscal years 1962 and 1961, respectively.

Summary of operations

Pertinent data on power operations for fiscal years 1962 and 1961 are summarized below.

	<u>1962</u>			<u>1961</u>
	<u>St. Thomas</u>	<u>St. Croix</u>	<u>Total</u>	<u>Total</u>
Financial results:				
Revenue from power operations	\$1,079,653	\$649,173	\$1,728,826	\$1,232,277
Less operating expenses and interest on power operations	<u>1,097,948</u>	<u>606,713</u>	<u>1,704,661</u>	<u>1,323,574</u>
Net income or loss (-) from power operations	<u>\$ -18,295</u>	<u>\$ 42,460</u>	<u>\$ 24,165</u>	<u>\$ -91,297</u>
Statistics:				
Generating capacity (kilowatts)	9,995	4,626	14,621	11,496
Thousands of kilowatt-hours sold	24,946	14,802	39,748	32,028
Revenue per thousand kilowatt-hours sold	<u>\$43.28</u>	<u>\$43.86</u>	<u>\$43.49</u>	<u>\$38.47</u>
Expenses per thousand kilowatt-hours sold	<u>\$44.01</u>	<u>\$40.99</u>	<u>\$42.89</u>	<u>\$41.33</u>
Number of consumers:				
Residential	4,990	3,781	8,771	8,164
Commercial and industrial	<u>943</u>	<u>910</u>	<u>1,853</u>	<u>1,680</u>
Total	<u>5,933</u>	<u>4,691</u>	<u>10,624</u>	<u>9,844</u>
Miles of distribution line energized	<u>306</u>	<u>260</u>	<u>566</u>	<u>541</u>

St. Thomas power division

An \$18,295 net loss was sustained by the St. Thomas power division in fiscal year 1962, compared with net income of \$29,484 in fiscal year 1961. The division's revenues of \$1,079,653 for the current fiscal year were 38.6 percent greater than the fiscal year 1961 revenues of \$778,718, partly because of higher power rates placed into effect on September 1, 1961; also, electric energy deliveries increased 17.9 percent to 24.9 million kilowatt-hours. The division's fiscal year 1962 operating expenses of \$1,097,948 include interest on the Federal investment of \$92,650.

In March 1962 a 2,500-kilowatt diesel generating unit, purchased for \$387,450, failed because of a broken crankshaft. Although placed on the line in December 1959, the unit was not accepted by the Corporation from the manufacturer until January 1961 because of various operating difficulties. During the 13-month preacceptance period, the Corporation spent \$8,924 to repair the unit and \$43,861 to rent auxiliary generating units from the United States Navy. Costs to repair the crankshaft break occurring in March 1962 totaled \$147,655 of which \$125,470 was charged to the division's fiscal year 1962 operations. In September 1962 the manufacturer agreed to reimburse the Corporation \$70,000 for these costs, including a credit of \$31,245 to the Corporation on the manufacturer's books for renewal parts purchases. The Corporation is certain that its need for spare parts is such that full return of this credit is guaranteed.

At June 30, 1962, accounts receivable of the St. Thomas power division totaled \$178,694, compared with \$159,951 at June 30, 1961. The provision for uncollectible St. Thomas power division accounts was increased from \$1,606 at June 30, 1961, to \$12,032 at June 30, 1962. Part of the increased provision covers a bill of \$4,681 for electric power supplied through June 30, 1960, to a major hotel on St. Thomas. At that time the hotel was leased to a firm from the continental United States which is not considered responsible for the debts of the prior management. In November 1960 the United States attorney for the Virgin Islands was requested to effect collection of the amount owed the Corporation, but as of June 30, 1962, the \$4,681 due was still outstanding. The Corporation expects to litigate the matter should the need arise.

St. Croix power division

In fiscal year 1962 St. Croix power division operations resulted in a net profit of \$42,460, compared with a net loss of \$120,781 in the preceeding fiscal year. The division's power revenues increased 43.1 percent to \$649,173 and energy sales increased to 14.8 million kilowatt-hours, or an increase of 36.2 percent in fiscal year 1962. The division's operating expenses of \$606,713, which includes interest on the Federal investment of \$62,363, increased \$32,373 during the fiscal year.

SALT WATER DISTILLATION OPERATIONS

Pursuant to authority provided by the Virgin Islands Corporation Act, as amended (48 U.S.C. 1407c(o)), the Corporation, during fiscal year 1962, placed in service on St. Thomas salt water distillation facilities designed to produce 275,000 gallons of potable water a day. A multistage flash distillation process is used to convert sea water to potable water. The facilities were dedicated on January 6, 1962, and sustained production operations began on February 13, 1962. Initially, production was below the facilities' planned capability, mainly because an insufficient quantity of water for processing was obtained through the intake structure. As a result of process changes devised by the Corporation, water production in the final 2 months of fiscal year 1962 averaged about 315,000 gallons a day. The facilities were constructed in combination with a 3,125-kilowatt steam turbine unit, placed in service in December 1961, which supplies 2,500 kilowatts of electric generating capacity to the St. Thomas power division and 625 kilowatts of generating capacity to distillation operations; a common boiler provides steam for distillation operations. Pertinent data on salt water distillation operations for fiscal year 1962 are summarized below:

Financial results:

Revenues from salt water distillation operations	\$46,743
Less net operating expenses and interest on salt water operations	<u>79,106</u>
Operating expenses and interest in excess of revenues, deferred for future recovery	<u>\$32,363</u>

Statistics:

Gallons of water produced (in thousands)	32,927
Gallons of water sold (in thousands)	26,710

The Corporation is authorized to borrow from the Treasury of the United States, within such amounts as may be approved in appropriation acts, up to \$2 million for the construction, operation, and maintenance of salt water distillation facilities on St. Thomas. Through June 30, 1962, the Congress approved corporate borrowings totaling \$1,225,000 under this authority, and an additional \$1,240,000 was appropriated to the Corporation's revolving fund for construction of the integral 3,125-kilowatt steam turbine generating unit. Costs of \$1,035,516 and \$1,047,610 have been allocated to the salt water distillation facilities and steam turbine generating unit, respectively, for a total investment in these facilities of \$2,083,126. With the approval of the cognizant committees of the Congress, the Corporation has reprogramed \$150,000 of salt water distillation facilities' funds and \$250,000 of steam turbine generating unit funds to help finance the purchase of a 3,000-kilowatt diesel generating unit scheduled for installation at the St. Thomas power division in March 1963.

The Corporation's borrowings for the salt water distillation facilities, which totaled \$943,900 at June 30, 1962, were secured by 20-year notes given to the United States Treasury bearing interest at an effective rate of 3.9 percent.

As a precedent to constructing the distillation facilities, the Government of the Virgin Islands, on January 16, 1959, contracted with the Corporation to purchase a minimum quantity of water (36.5 million gallons a year) for 20 years and to purchase such additional quantities as are produced annually. The Corporation

will be paid its costs, as established by the Corporation, plus a reasonable rate of return. The contract defines "cost" as embracing all expenditures of whatsoever kind; it includes depreciation, and interest on the Corporation's indebtedness on the facilities.

The Corporation billed the insular government \$46,743 for fiscal year 1962 water deliveries, at a tentative rate of \$1.75 per thousand gallons. The sales contract provides, in effect, that, during the 17-month period of initial plant operations ending June 30, 1963, monthly billings for water deliveries will be based on an estimated cost per thousand gallons as determined by the Corporation after consultation with the contractor installing the facilities and that actual costs for the 17-month period are to be determined and billings are to be adjusted by the Corporation within 30 days thereafter.

SUGAR OPERATIONS

A major activity of the Corporation is the growing of sugar cane and the operation of the only sugar mill on St. Croix. These activities resulted in a net loss of \$433,689 during fiscal year 1962, compared with a net loss of \$46,577 sustained in fiscal year 1961. Pertinent data on the Corporation's sugar operations for fiscal years 1962 and 1961 are summarized below:

	<u>1962</u>	<u>1961</u>
Financial results:		
Gross sales of sugar and molasses	\$1,457,796	\$2,137,059
Payments due under the Sugar Act of 1948	<u>80,264</u>	<u>107,560</u>
Total revenues	1,538,060	2,244,619
Less shipping and selling expenses	<u>107,119</u>	<u>174,143</u>
Total revenues, less shipping and selling expenses	1,430,941	2,070,476
Less operating costs and expenses	<u>1,864,630</u>	<u>2,117,053</u>
Net profit or loss (-) from sugar operations	<u>\$ -433,689</u>	<u>\$ -46,577</u>
Statistics:		
Tons of sugar cane grown	76,919	96,178
Tons of sugar cane purchased	<u>37,952</u>	<u>67,015</u>
Total tons of sugar cane used in production of raw sugar	<u>114,871</u>	<u>163,193</u>
Tons of raw sugar produced	<u>10,371</u>	<u>16,119</u>
Cost of sugar cane per ton:		
Grown	\$8.37	\$6.73
Purchased	\$7.47	\$7.55
Sugar-cane yield--tons per acre of cane grown	31.1	44.4

Revenues from sugar and molasses sales totaled \$1,457,796 during fiscal year 1962, compared with revenues of \$2,137,059 in fiscal year 1961. The decline of \$679,263 in revenues resulted principally from reduced sugar cane production on St. Croix. The reduced production is attributable to the fact that the average rainfall of 44 inches was experienced in calendar year 1961, the main part of the growing season for the fiscal year 1962 crop, compared with rainfall of 64 inches in calendar year 1960. As a result of the decline in rainfall, the production of sugar cane and the output of raw sugar totaled 114,871 and 10,371 tons, respectively, for fiscal year 1962, compared with 163,193 and 16,119 tons for the previous fiscal year. Revenues from molasses production decreased from \$90,782 in fiscal year 1961 to \$81,767 in fiscal year 1962.

Sugar operating costs and expenses decreased from \$2,117,053 in fiscal year 1961 to \$1,864,630 in fiscal year 1962, primarily as a result of the decreased quantity of sugar cane available for processing into raw sugar at the Corporation's sugar mill.

MISCELLANEOUS ACTIVITIES

Acquisition and disposal of the tug "Major General Harry L. Rogers"

In October 1961 a surplus United States Army tug, "Major General Harry L. Rogers," was acquired by the Corporation without reimbursement from the General Services Administration (GSA). The tug's acquisition was arranged by Washington officials of the Department of the Interior, acting for the Corporation, on the basis that the local government had made a convincing stand that the tug

would make a real and valuable contribution to the economic development of the Islands. The Corporation's Board of Directors, in June 1962, approved a proposal that the tug be transferred to the Government of the Virgin Islands without reimbursement therefor.

The tug, stated to have a length of 125 feet, a cruising limit of 900 miles, a capacity to carry 200 passengers, and a 15-ton cargo boom, is valued at \$22,000 on the basis of sealed bids obtained by GSA prior to the tug's transfer to the Corporation. The insular government furnished the crew to sail the tug from New York to St. Thomas.

At June 30, 1962, the tug was included among the Corporation's fixed assets summarized in the statement of assets and liabilities accompanying this report (schedule 1, p. 32) in the amount of \$22,000. A similar amount is included in the Corporation's donated surplus account, which is a part of the interest-bearing investment of the United States Government shown on schedule 1. Section 1407f(b) of title 48 of the United States Code prescribes that the Corporation pay into the United States Treasury interest on the net value, as approved by the Director of the Bureau of the Budget, of any property and assets, the ownership of which may be transferred by the Government to the Corporation without cost. The Director of the Bureau of the Budget was requested on September 18, 1962 to approve the tug's valuation of \$22,000.

The Corporation's acquisition of the tug was urged by the insular government and arranged by the Washington officials of the Department of the Interior; we were advised by the former President

of the Corporation that he foresaw no corporate uses for the tug. However, the Department of the Interior, in its letter to us dated February 26, 1963, advised that the tug was acquired in pursuance of several of the Corporation's statutory powers, including the power to provide transportation within the Virgin Islands (48 U.S.C. 1407b(d)) and the power to assist in the development of the tourist trade (48 U.S.C. 1407b(e)). According to the Department, the Corporation recognized when the tug was being acquired that it would also be of use to the territorial government and expected that the tug would, therefore, be made available from time to time for use by the Government of the Virgin Islands. The Department further stated that for such use the insular government informally agreed to pay the Corporation about \$900 a year for the interest costs resulting from the tug's acquisition.

Through August 31, 1962, the tug was idle except on two occasions when it was used by the insular government. The Governor's proposal that the tug be transferred to the insular government without reimbursement therefor was approved by the Corporation's Board of Directors in June 1962. The proposal indicated that the insular government would have to spend about \$25,000 to put the tug in trim shape and that its annual upkeep would cost about \$60,000. We were advised by the Governor that no funds were expended to repair the tug upon its arrival in the Islands because the Corporation held title to the vessel.

Water and soil conservation and forestry programs

On June 30, 1962, the Corporation terminated its water and soil conservation and forestry programs. The water and soil conservation program consisted principally of the construction and maintenance of small dams in order to raise the general water table in the Islands by conserving rainfall. The chief forestry program activity was the planting of trees having future commercial value.

The Department of the Interior and Related Agencies Appropriation Act, 1962 (75 Stat. 246), provided \$130,000 to the Corporation to finance these non-revenue-producing programs during fiscal year 1962. The \$130,000 was directed to be paid out of the internal revenue collections on products of the Virgin Islands imported into the United States, which collections were otherwise appropriated to the Government of the Virgin Islands, pursuant to section 28(b) of the Revised Organic Act of the Virgin Islands (26 U.S.C. 7652(b)).

In fiscal year 1962 expenditures under the water and soil conservation program totaled \$93,759; forestry program expenditures totaled \$30,628.

The Government of the Virgin Islands assumed financial responsibility for the water and soil conservation program, effective July 1, 1962. The United States Forest Service assumed operation of the forestry program on that same date.

In June 1962 the Board of Directors agreed to transfer the equipment used in the water and soil conservation program to the Government of the Virgin Islands without reimbursement. The Board

agreed also to transfer about 146 acres of land devoted to the forestry program to the Forest Service.

DEVELOPMENT DEPARTMENT

Since July 1, 1954, pursuant to a revocable permit received from the Secretary of the Interior, the Corporation has had the responsibility for managing the former Marine Corps Air Facility and Naval Submarine Base on St. Thomas. The properties were transferred by the Department of the Navy to the Department of the Interior for operation under a revocable permit dated January 1, 1948, and were operated from January 1, 1948, to July 1, 1954, by the Municipality of St. Thomas and St. John.

The properties comprise about 80 housing units rented to Federal and insular government employees and private individuals, 6 hotels, 1 guesthouse, 4 piers, a beach club, a golf course and clubhouse, about 35 additional buildings, 3 water systems, transportation equipment, and other miscellaneous units. The Development Department, which also manages the St. Thomas airport for the Government of the Virgin Islands, had 79 employees at June 30, 1962.

During fiscal year 1962, revenues of the Development Department totaled \$364,384 and expenses totaled \$404,130, resulting in a net loss of \$39,746 for the fiscal year and a cumulative deficit of \$5,540 at June 30, 1962. Corporate funds are not used for the Department's activities, and the Secretary of the Interior has directed that the Corporation shall expend on Development Department properties no more than the revenues therefrom, unless his

prior approval is obtained. The Corporation was not aware of the Department's deficit position until September 1962 and did not obtain the Secretary's advance approval to incur costs in excess of the Department's available revenues.

During the second session of the Eighty-seventh Congress, consideration was given to transferring the properties managed by the Development Department to the Government of the Virgin Islands, but the legislation required for this purpose and to simultaneously transfer the Corporation's assets and obligations to the insular government was not enacted. The properties include eight large houses now occupied by key Federal and insular government officials; we were informed that because of the scarcity of housing in the Virgin Islands their transfer to the insular government would create difficult staffing problems for a number of Federal agencies.

Our review of the Development Department was limited to inspection of certain documents and accounting records and included only a limited review of operations of the Department.

SCOPE OF AUDIT

Our audit of the Virgin Islands Corporation for the fiscal year 1962 included a review of applicable legislation, a review of management controls, reviews of selected activities, and an examination of financial statements. Our examination of the financial statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in view of the internal controls afforded by the accounting system. The audit was conducted at St. Croix and St. Thomas, Virgin Islands.

OPINION OF FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements of the Virgin Islands Corporation present fairly the financial position of the Corporation at June 30, 1962, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceeding year and with applicable Federal laws.

FINANCIAL STATEMENTS

VIRGIN ISLANDS CORPORATION
(A CORPORATION WHOLLY OWNED BY THE UNITED STATES OF AMERICA)

STATEMENT OF ASSETS AND LIABILITIES--JUNE 30, 1962 AND 1961 (note 1)

ASSETS			LIABILITIES		
	1962	1961		1962	1961
CASH IN U.S. TREASURY AND ON HAND	\$ 162,616	\$ 191,071	ACCOUNTS PAYABLE	\$ 279,442	\$ 154,761
ACCOUNTS RECEIVABLE:			ACCRUED LIABILITIES:		
General, less estimated uncollectibles of \$17,370 and \$2,956, respectively (note 2)	1,789,165	483,256	Salaries and wages	29,533	21,385
SHORT-TERM LOANS RECEIVABLE:			Annual leave	76,878	76,355
Commercial and industrial	12,145	19,428	Due private growers for sugar cane and molasses	30,880	58,144
Agricultural	2,424	1,527	Sugar selling expenses	74,956	173,833
ANTICIPATED INCOME FROM UNSOLD PORTION OF PRODUCTION (note 3):			Accrued taxes	37,900	30,713
Sugar	-	2,046,600	Materials and supplies not invoiced	174,553	56,227
Molasses	65,075	35,107	Accrued interest, U.S. Treasury (note 6)	318,311	306,492
ACCRUED ELECTRIC REVENUE	81,939	53,992	Withholdings from contractors	77,938	164,900
			Other	38,903	43,936
INVENTORIES OF COMMODITIES, SUPPLIES AND MATERIALS:			TRUST AND DEPOSIT LIABILITIES	120,158	84,310
Sugar cane (note 4)	144,921	107,303	Total current liabilities	1,259,452	1,171,056
Materials and supplies at average cost	1,139,540	972,725	INVESTMENT OF THE U.S. GOVERNMENT:		
DEFERRED CHARGES AND OTHER ASSETS (note 5)	34,861	1,363	Interest-bearing investment:		
Total current assets	3,432,686	3,912,372	Advances from revolving fund	9,682,000	8,903,000
LAND, STRUCTURES, AND EQUIPMENT:			Borrowings from the U.S. Treasury	943,900	593,900
Land and buildings	1,379,087	1,368,396	Transfers from the Department of the Interior and predecessor corporation	938,436	938,436
Machinery and equipment	3,449,003	3,391,792	Transfer from the Department of the Navy	300,883	300,883
Electric plant	6,855,326	5,294,413	Material and equipment transferred from other agencies	50,278	28,278
Furniture and fixtures	123,660	122,528	Total interest-bearing investment	11,915,497	10,764,497
Livestock	10,142	9,738	Non-interest-bearing investment:		
Salt water distillation plant	1,035,516	544,385	Grant for repayment of predecessor corporation's notes payable to the U.S. Treasury at June 30, 1949	750,000	750,000
	12,852,734	10,731,252	Expended from grants for non-revenue-producing activities for purchase of fixed assets (contra)	129,744	131,411
Less accumulated depreciation	3,326,020	2,911,774	Unexpended grants for non-revenue-producing activities (note 7)	31,291	25,678
	9,526,714	7,819,478	Grants for reimbursement of losses from revenue-producing activities	3,946,970	3,617,769
Machinery and equipment for non-revenue-producing activities (contra)	129,744	131,411	Total non-interest-bearing investment	4,858,005	4,524,858
Total land, structures, and equipment less depreciation	9,656,458	7,950,889	Gross investment of the U.S. Government	16,773,502	15,289,355
LONG-TERM RECEIVABLES	322,469	421,726	Less accumulated deficit from revenue-producing activities (schedule 2) (note 8)	4,621,341	4,175,424
Total assets	\$13,411,613	\$12,284,987	Net investment of the U.S. Government	12,152,161	11,113,931
			Total liabilities and investment of the U.S. Government	\$13,411,613	\$12,284,987

The notes on pages 43 to 46 are an integral part of this statement.

VIRGIN ISLANDS CORPORATION

INCOME AND DEFICIT STATEMENT

FOR THE FISCAL YEARS ENDED JUNE 30, 1962 AND 1961 (note 1)

	<u>1962</u>	<u>1961</u>
OPERATING LOSS:		
Sugar operations (schedule 3)	\$ -433,689	\$ -46,577
Power operations (schedule 6)	24,165	-91,297
Miscellaneous activities (schedule 8)	<u>-36,393</u>	<u>-31,937</u>
Net loss from operations	445,917	169,811
NONOPERATING INCOME:		
Profit on sale of land and buildings	<u>-</u>	<u>24,505</u>
Net loss for the year	445,917	145,306
CUMULATIVE DEFICIT INCURRED IN REVENUE- PRODUCING ACTIVITIES AT BEGINNING OF YEAR	<u>4,175,424</u>	<u>4,030,118</u>
CUMULATIVE DEFICIT INCURRED IN REVENUE- PRODUCING ACTIVITIES AT END OF YEAR (schedule 1)	<u>\$4,621,341</u>	<u>\$4,175,424</u>

The notes on pages 43 to 46 are an integral part of this statement.

VIRGIN ISLANDS CORPORATION

STATEMENT OF SUGAR OPERATIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 1962 AND 1961

	<u>1962</u>	<u>1961</u>
SALES:		
Sugar	\$1,376,029	\$2,046,277
Molasses	<u>81,767</u>	<u>90,782</u>
Total	1,457,796	2,137,059
COST OF SUGAR SOLD:		
Cost of sugar produced (schedule 4)	\$1,774,185	\$2,175,936
Shipping and selling expenses:		
Sugar	106,932	173,714
Molasses	<u>187</u>	<u>429</u>
Total	<u>1,881,304</u>	<u>2,350,079</u>
OPERATING LOSS, SUGAR MILLING	423,508	213,020
Operating profit or loss (-) and subsidy on sugar-cane growing (schedule 5)	<u>-10,181</u>	<u>166,443</u>
OPERATING LOSS FOR THE YEAR (schedule 2)	<u>\$ 433,689</u>	<u>\$ 46,577</u>

SCHEDULE 4

VIRGIN ISLANDS CORPORATION

STATEMENT OF COST OF SUGAR PRODUCED

FOR THE FISCAL YEARS ENDED JUNE 30, 1962 AND 1961

	<u>1962</u>	<u>1961</u>
COST OF SUGAR PRODUCED:		
Materials:		
Market value of sugar cane grown	\$ 553,554	\$ 706,380
Cost of sugar cane purchased	<u>283,446</u>	<u>506,149</u>
Total materials	837,000	1,212,529
LABOR AND OVERHEAD:		
Transportation of cane to mill	\$ 54,496	\$ 76,768
Weighing and discharg- ing cane	36,054	48,967
Grinding	15,366	18,889
Other processing oper- ations	31,933	41,814
Supplies (fuel oil, lubricants, and chemicals)	68,918	91,373
Power, light and water, and steam plant fur- naces	42,242	37,860
Superintendence and general overhead	35,066	46,538
Repairs to factory	188,876	142,130
Other	<u>23,260</u>	<u>29,368</u>
Total labor and overhead	496,211	533,707
ALLOCATED SUGAR MILLING EX- PENSES (schedule 9):		
Depreciation	169,635	169,817
Administrative expenses	61,384	75,297
General expenses	88,220	47,994
Interest on investment	<u>121,735</u>	<u>136,592</u>
Total allocated expenses	<u>440,974</u>	<u>429,700</u>
Total cost of sugar pro- duced (schedule 3)	<u>\$1,774,185</u>	<u>\$2,175,936</u>

VIRGIN ISLANDS CORPORATION

STATEMENT OF INCOME AND DEFICIT ON SUGAR-CANE GROWING

FOR THE FISCAL YEARS ENDED JUNE 30, 1962 AND 1961

	<u>1962</u>	<u>1961</u>
CANE GROWN (market value) (note a)	\$553,554	\$706,380
GROWING COSTS:		
Materials	\$ 58,246	\$ 69,454
Labor and equipment	290,117	299,154
Overhead	149,522	140,965
Allocated expenses (schedule 9):		
Depreciation	49,139	45,992
General expenses	29,959	27,387
Administrative ex- penses	24,939	23,968
Interest on in- vestment	42,077	35,894
Other	<u>-</u>	<u>4,683</u>
Total growing costs	<u>643,999</u>	<u>647,497</u>
OPERATING PROFIT OR LOSS (-), CANE GROWING	-90,445	58,883
Subsidy from Commodity Stabi- lization Service under the Sugar Act of 1948	<u>80,264</u>	<u>107,560</u>
OPERATING PROFIT OR LOSS (-) AND SUBSIDY ON SUGAR-CANE GROWING (schedule 3)	<u>\$-10,181</u>	<u>\$166,443</u>

^aThe value of cane grown by the Corporation is based on the ton price of sugar cane established pursuant to criteria developed by the Department of Agriculture. This ton price is the same as that paid by the Corporation to private cane growers on St. Croix for cane of the same quality.

VIRGIN ISLANDS CORPORATION

STATEMENT OF POWER OPERATIONS

FOR THE FISCAL YEARS ENDED JUNE 30, 1962 AND 1961

	1962			1961		
	<u>Total</u>	<u>St. Thomas</u>	<u>St. Croix</u>	<u>Total</u>	<u>St. Thomas</u>	<u>St. Croix</u>
REVENUES:						
Electric sales	\$1,702,040	\$1,059,868	\$642,172	\$1,217,502	\$773,040	\$444,462
Other income	<u>26,786</u>	<u>19,785</u>	<u>7,001</u>	<u>14,775</u>	<u>5,678</u>	<u>9,097</u>
Total revenues	<u>1,728,826</u>	<u>1,079,653</u>	<u>649,173</u>	<u>1,232,277</u>	<u>778,718</u>	<u>453,559</u>
OPERATING EXPENSES:						
Production:						
Generation	570,782	338,470	232,312	472,320	276,199	196,121
Maintenance	247,298	175,033	72,265	229,635	99,012	130,623
Distribution	125,541	71,419	54,122	106,483	67,093	39,390
Administrative expenses allocated (schedule 9)	60,466	38,069	22,397	44,662	23,940	20,722
Other administrative and general expenses	196,615	107,365	89,250	153,618	79,483	74,135
Depreciation	<u>223,476</u>	<u>149,472</u>	<u>74,004</u>	<u>168,214</u>	<u>107,637</u>	<u>60,577</u>
Total operating expenses	<u>1,424,178</u>	<u>879,828</u>	<u>544,350</u>	<u>1,174,932</u>	<u>653,364</u>	<u>521,568</u>
OPERATING INCOME OR LOSS (-) FOR THE YEAR	304,648	199,825	104,823	57,345	125,354	-68,009
OTHER EXPENSES:						
Interest on investment	155,013	92,650	62,363	125,380	72,608	52,772
Extraordinary repairs to generating equipment	125,470	125,470	-	-	-	-
Prior year's expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,262</u>	<u>23,262</u>	<u>-</u>
NET INCOME OR LOSS (-) FOR THE YEAR (schedule 2)	<u>\$ 24,165</u>	<u>\$ -18,295</u>	<u>\$ 42,460</u>	<u>\$ -91,297</u>	<u>\$ 29,484</u>	<u>\$ -120,781</u>

V I R G I N I S L A N D S C O R P O R A T I O N

STATEMENT OF SALT WATER DISTILLATION OPERATIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 1962

	<u>1962</u>
REVENUES:	
Water deliveries to Government of the Virgin Islands at estimated rate of \$1.75 per 1,000 gallons (note 5)	\$ <u>46,743</u>
OPERATING EXPENSES:	
Production expense:	
Steam expense (allocated)	30,819
Electric power (allocated)	12,975
Station labor	10,324
Maintenance	6,994
Other	3,242
Administrative expenses allocated (schedule 9)	931
Depreciation	<u>13,925</u>
Total operating expenses	79,210
INTEREST ON INVESTMENT	<u>10,775</u>
TOTAL OPERATING EXPENSES AND INTEREST	89,985
LESS WATER DELIVERIES FOR STATION USE	<u>10,879</u>
NET OPERATING EXPENSES AND INTEREST	<u>79,106</u>
OPERATING EXPENSES AND INTEREST ON INVESTMENT IN EXCESS OF BILLINGS FOR WATER SALES, DEFERRED FOR FUTURE RECOVERY (note 5)	\$ <u>32,363</u>

The notes on pages 43 to 46 are an integral part of this statement.

VIRGIN ISLANDS CORPORATION

STATEMENT OF INCOME AND EXPENSES OF MISCELLANEOUS ACTIVITIES
FOR THE FISCAL YEARS ENDED JUNE 30, 1962 AND 1961

07

	1962			1961		
		Cost and expenses (includes allocated administrative and general expenses, depreciation, and interest)	Net income or loss (-) (schedule 2)		Cost and expenses (includes allocated administrative and general expenses, depreciation, and interest)	Net income or loss (-) (schedule 2)
	Income			Income		
RENTALS:						
Tractors and other equipment	\$11,742	\$ 11,793	\$ -51	\$10,221	\$ 12,251	\$-2,030
Leases:						
Houses occupied by officers and supervisory employees	3,412	13,895	-10,483	3,571	15,402	-11,831
Villages occupied by factory and field laborers	9,124	53,820	-44,696	6,602	38,732	-32,130
Commercial, industrial, and other Government agencies	<u>3,312</u>	<u>1,244</u>	<u>2,068</u>	<u>3,580</u>	<u>2,169</u>	<u>1,411</u>
Total	<u>27,590</u>	<u>80,752</u>	<u>-53,162</u>	<u>23,974</u>	<u>68,554</u>	<u>-44,580</u>
SALES:						
Storeroom supplies, seed and other	22,068	17,475	4,593	27,617	12,511	15,106
Livestock	3,772	3,623	149	3,523	5,697	-2,174
Vegetables	<u>47</u>	<u>594</u>	<u>-547</u>	<u>2,623</u>	<u>1,422</u>	<u>1,201</u>
Total	<u>25,887</u>	<u>21,692</u>	<u>4,195</u>	<u>33,763</u>	<u>19,630</u>	<u>14,133</u>
OTHER INCOME AND EXPENSES:						
Loan program	4,468	3,223	1,245	6,640	5,479	1,161
Interest on long-term accounts	<u>12,469</u>	<u>-</u>	<u>12,469</u>	<u>14,791</u>	<u>-</u>	<u>14,791</u>
Total	<u>16,937</u>	<u>3,223</u>	<u>13,714</u>	<u>21,431</u>	<u>5,479</u>	<u>15,952</u>
ADJUSTMENT TO PRIOR YEARS' INCOME (net)	<u>-</u>	<u>1,140</u>	<u>-1,140</u>	<u>-</u>	<u>17,442</u>	<u>-17,442</u>
Total miscellaneous activities	\$70,414	\$106,807	\$-36,393	\$79,168	\$111,105	\$-31,937

VIRGIN ISLANDS CORPORATION

SCHEDULE OF EXPENSE ALLOCATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 1962

	Depreciation			Interest on investment			General expenses			Adminis- trative expenses (all al- located) (note 9)
	Allocated	Direct	Total	Allocated	Direct	Total	Allocated	Direct	Total	
77 SUGAR MILLING OPER- ATIONS (sched- ule 4)	\$12,931	\$156,704	\$169,635	\$121,735	-	\$121,735	\$15,167	\$ 73,053	\$ 88,220	\$ 61,384
SUGAR-CANE GROWING OPERATIONS (sched- ule 5)	4,470	44,669	49,139	42,077	-	42,077	5,285	24,674	29,959	24,939
POWER OPERATIONS (schedule 6)	-	223,476	223,476	-	155,013	155,013	-	-	-	60,466
SALT WATER DISTIL- LATION (sched- ule 7)	-	13,925	13,925	-	10,775	10,775	-	-	-	931
MISCELLANEOUS AC- TIVITIES	557	20,856	21,413	5,241	2,792	8,033	613	3,724	4,337	9,973
DEVELOPMENT DEPART- MENT	-	-	-	-	-	-	-	-	-	22,202
Total	<u>\$17,958</u>	<u>\$459,630</u>	<u>\$477,588</u>	<u>\$169,053</u>	<u>\$168,580</u>	<u>\$337,633</u>	<u>\$21,065</u>	<u>\$101,451</u>	<u>\$122,516</u>	<u>\$179,895</u>

The notes on pages 43 to 46 are an integral part of this statement.

VIRGIN ISLANDS CORPORATION

SOURCE AND APPLICATION OF FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1962

	Power and salt water distilla- tion operations	Sugar opera- tions and mis- cellaneous activities	Total
SOURCE OF FUNDS:			
Funds from operations:			
Operating revenues	\$1,775,569	\$1,518,029	\$3,293,598
Less operating expenses	<u>1,751,404</u>	<u>1,988,131</u>	<u>3,739,535</u>
Net income or loss (-) from operations	24,165	-470,102	-445,937
Add noncash expense (depreciation charges)	<u>237,401</u>	<u>240,187</u>	<u>477,588</u>
Funds provided from operations	<u>261,566</u>	<u>-229,915</u>	<u>31,651</u>
Grants provided in Department of the Interior and Related Agencies Appropriation Act, 1962:			
For reimbursement of operating losses, fiscal year 1960	-	539,000	539,000
For water and soil conservation, fiscal year 1962	-	100,000	100,000
For forestry program, fiscal year 1962	<u>-</u>	<u>30,000</u>	<u>30,000</u>
Total grants	<u>-</u>	<u>669,000</u>	<u>669,000</u>
Other sources:			
Withdrawals from revolving fund	709,000	70,000	779,000
Borrowings from U.S. Treasury	350,000	-	350,000
Reduction in long-term receivables	-	99,257	99,257
Sale of land	<u>-</u>	<u>20</u>	<u>20</u>
Total other sources	<u>1,059,000</u>	<u>169,277</u>	<u>1,228,277</u>
Total source of funds	<u>\$1,320,566</u>	<u>\$ 608,362</u>	<u>\$1,928,928</u>
APPLICATION OF FUNDS:			
Net additions to fixed assets	\$2,065,520	\$ 97,304	\$2,162,824
Expenditures for non-revenue-producing activities:			
Water and soil conservation	-	93,759	93,759
Forestry program	-	30,628	30,628
Return to Treasury of grants for losses in excess of deficit incurred	<u>-</u>	<u>209,799</u>	<u>209,799</u>
Total funds applied	2,065,520	431,490	2,497,010
DIFFERENCE REPRESENTING INCREASE OR DECREASE (-) IN WORKING CAPITAL	<u>-744,954</u>	<u>176,872</u>	<u>-568,082</u>
Total funds applied and change in working capital	<u>\$1,320,566</u>	<u>\$ 608,362</u>	<u>\$1,928,928</u>

NOTES TO FINANCIAL STATEMENTS

1. The statement of assets and liabilities (schedule 1) and the income and deficit statement (schedule 2) do not include the activities of the Development Department. These activities are accounted for separately by the Corporation, and the revenues are used solely for the operation and rehabilitation of certain Department of the Navy facilities in the custody of the Corporation. (See pp. 27 to 28.)

The income and deficit statement does not include the water and soil conservation and forestry activities of the Corporation which are predominantly non-revenue-producing in character. The expenditures for these activities are charged against congressional grants for these purposes. (See p. 26.)

2. Accounts receivable include sugar benefit payments of \$80,264 and \$106,060 at June 30, 1962 and 1961, respectively, due from the Commodity Stabilization Service, Department of Agriculture, under the Sugar Act of 1948 (7 U.S.C. 1100). The benefit payments are made at rates specified in the act for each ton of raw sugar produced from sugar cane grown by the Corporation during the crop year. The payment is contingent upon the Corporation's meeting specified conditions, which include the payment of wages to persons employed in the production, cultivation, or harvesting of sugar cane at rates not less than those that may be determined by the Secretary of Agriculture to be fair and reasonable.

3. Under the crop-year basis of accounting, all income, operating costs, and expenses applicable to the year's crop are

considered earned or incurred during the fiscal year in which the crop is harvested. The crop-year basis of accounting is used because the growing period extends over more than 1 year, depending on whether the cane is a new planting or second-growth cane, and because the crop may not be sold during the fiscal year. The growing period for sugar cane generally is 18 months for new plantings and 12 months for second-growth cane. The Corporation's fiscal year 1962 sugar-cane harvesting and milling operations ended on May 29, 1962, and the current fiscal year's raw sugar production was sold and delivered in June 1962. The prior fiscal year's sugar, valued at \$2,046,600 at June 30, 1961, was sold in August 1961 and, except for a small carryover, was delivered in November 1961.

Anticipated revenues of \$65,075 and \$35,107 represent the estimated sales value of that part of the molasses production unsold at the end of fiscal years 1962 and 1961, respectively.

4. The inventories of sugar cane under cultivation, amounting to \$144,921 at June 30, 1962, and \$107,303 at June 30, 1961, represent the costs accumulated to the end of the respective fiscal years for preparing, planting, and cultivating the crop of the succeeding years.

5. On January 16, 1959, the Government of the Virgin Islands agreed to accept and pay for the potable water produced by the Corporation's salt water distillation facilities at cost and a reasonable rate of return. Cost embraces all operation and maintenance expenditures including depreciation and interest on the

Corporation's investment. The Corporation is to determine its accumulative water production costs and adjust its interim billings accordingly within 30 days after June 30, 1963, the end of the first settlement date under this contract. At June 30, 1962, the interim billings subject to adjustment were \$32,363 less than accumulated water production costs as of that date.

6. The Corporation is required by law (48 U.S.C. 1407f(b)) to pay interest to the United States Treasury on withdrawals from the revolving fund and on the value of properties and other net assets transferred to the Corporation from its predecessor at June 30, 1949. The Corporation is required also to pay interest to the United States Treasury on the appraised value of property and assets transferred to the Corporation from the Federal Government without cost or for consideration clearly not commensurate with value received. The amounts due the Treasury at June 30, 1962 and 1961, were \$318,311 and \$306,492, respectively. Accrued interest was based on Treasury interest rates of 3-1/8 percent for fiscal year 1962 and 3-1/2 percent for fiscal year 1961.

7. Unexpended grants for non-revenue-producing activities represent the difference between total appropriations of \$1,480,000 and expenditures of \$1,448,709 to June 30, 1962. Appropriations to June 30, 1962, consisted of \$1,140,000 for water and soil conservation, \$95,000 for tourist development, and \$245,000 for the forestry program.

8. Grants for reimbursement of losses represent amounts appropriated to partially cover the operating losses of

revenue-producing activities of prior years. At June 30, 1962, the net reimbursements of \$3,946,970 appropriated to the Corporation were \$674,371 less than its cumulative losses of \$4,621,341 to that date, which includes a deficit of \$82,855 applicable to the predecessor Corporation.

9. Administrative expenses of \$179,895 are subject to the limitation of \$180,000 established by the Department of the Interior and Related Agencies Appropriation Act, 1962 (75 Stat. 246).

APPENDIX

OFFICIALS GENERALLY RESPONSIBLE FOR THE AFFAIRS OF THE
VIRGIN ISLANDS CORPORATION

The management of the Corporation is vested in a 7-member Board of Directors consisting of 4 Federal members and 3 businessmen who are appointed for terms of 6 years by the President of the United States. Serving at June 30, 1962, were the following Board members:

SECRETARY OF THE INTERIOR:
 Stewart L. Udall (Chairman)

SECRETARY OF AGRICULTURE:
 Orville L. Freeman

ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION:
 John E. Horne

GOVERNOR OF THE VIRGIN ISLANDS:
 Ralph M. Paiewonsky

BUSINESSMEN:
 Archer A. Claytor (term expires June 30, 1963)
 Ward M. Canaday (term expires June 30, 1963)
 Ashley L. Totten (deceased)

Officials of the Department of the Interior exercising general direction over the Corporation's activities during fiscal year 1962 included:

ASSISTANT SECRETARY OF THE INTERIOR--PUBLIC LAND MANAGEMENT:
 John A. Carver, Jr.

ADMINISTRATIVE ASSISTANT SECRETARY OF THE INTERIOR:
 D. Otis Beasley

DIRECTOR, OFFICE OF TERRITORIES:
 Richard F. Taitano

APPENDIX

By appointment of the Board, Dr. Kenneth A. Bartlett served as President of the Corporation from December 1953 to October 31, 1962. Mr. Robert P. Cramer was appointed President of the Corporation effective November 1, 1962.

about 3,650 acres at June 30, 1961, to the Secretary of the Interior or to the Administrator of General Services and direct that the lands be sold whenever they were determined to be excess to the needs of the Federal or insular governments. Action was subsequently initiated by the Corporation to dispose of about 2,250 of the 3,650 acres involved.

During fiscal year 1962 the Corporation sustained a net loss of \$446,000 from its revenue-producing activities, compared with a net loss of \$145,000 in the previous fiscal year. About \$434,000 of the Corporation's losses in fiscal year 1962 resulted from sugar operations; net income of \$24,000 was realized from power operations during this period.

We are expressing the opinion that the financial statements of the Virgin Islands Corporation included in this report present fairly its position at June 30, 1962, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

Copies of this report are being sent today to the President of the United States and to the Directors and President of the Virgin Islands Corporation.



Comptroller General
of the United States

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